

LCQ12: Impact of United States executive order on Hong Kong's innovation and technology industry

Following is a question by the Hon Tang Fei and a written reply by the Secretary for Innovation, Technology and Industry, Professor Sun Dong, in the Legislative Council today (November 1):

Question:

In August this year, the President of the United States (US) signed an executive order (E.O.) which restricted US outbound investment in three areas in China, namely semiconductors and microelectronics, quantum information technologies, and artificial intelligence systems. There are views that this may have a significant impact on Hong Kong's innovation and technology (I&T) industry. In this connection, will the Government inform this Council:

- (1) whether it has assessed the direct or indirect adverse effects of the aforesaid E.O. on Hong Kong's I&T industry;
- (2) whether it has assessed if the E.O. will make it more difficult for Hong Kong's I&T companies to access international capital; and
- (3) of the support to be provided by the Government for the I&T industry affected by the E.O.?

Reply:

President,

The United States (US) implemented a series of measures unreasonably targeting Hong Kong to undermine and cause damage to normal trade and investment activities. The Hong Kong Special Administrative Region (HKSAR) Government indicated clearly its strong objection and disapproval and emphasised that the US should withdraw the unreasonable restrictions concerned.

The HKSAR Government has been striving to promote innovation and technology (I&T) development in Hong Kong. Against a complicated and volatile environment of international competition, integrating into national development, strengthening our own I&T system, and consolidating our edge as an international city is the best way to safeguard the sustainable I&T development in Hong Kong. With the support of our country, the HKSAR Government is confident in developing Hong Kong into an international I&T centre.

Having consulted the Financial Services and the Treasury Bureau and the Office of the Government Economist, a consolidated reply to the various parts of the question is provided as follows:

(1) and (2) As a highly international city, Hong Kong's I&T sector has all along been attracting capital, enterprises, technologies and talents from different regions successfully for diversified development in Hong Kong. When engaging in procurement and launching products, Hong Kong's I&T sector would typically not rely on or target at a single market. The HKSAR Government has also been encouraging enterprises to adopt a diversified marketing strategy to attract investments from various places around the world, so as to reduce dependence on a specific market. At the same time, we have been taking forward the sustainable development of Hong Kong's I&T ecosystem by strengthening our research and development (R&D) capabilities, allocating more resources on I&T, and enhancing the supporting infrastructure, and more. Impact of any unilateral policies implemented by individual country on Hong Kong's I&T development is relatively limited. Nevertheless, the HKSAR Government will continue to closely monitor the developments and respond with appropriate measures.

(3) The HKSAR Government has been supporting the development of Hong Kong's I&T industry through various measures. The Chief Executive announced in the 2023 Policy Address the setting up of a \$10 billion New Industrialisation Acceleration Scheme (NIAS), with a view to promoting the downstream development of new industrialisation. Under the NIAS, we will provide financial assistance for enterprises in the fields of life and health technologies, artificial intelligence and data science, advanced manufacturing, and new energy technologies. These include providing funding support for the set-up of new production facilities on a one (Government) to two (company) matching basis, subject to a funding ceiling of \$200 million. In addition, the Innovation and Technology Fund (ITF) supports various funding schemes, including schemes that provide funding to R&D projects carried out by eligible organisations and enterprises or provide cash rebate on the enterprises' eligible R&D expenditure. We also provide enhanced tax deduction for qualifying R&D expenditure incurred by enterprises.

The HKSAR Government has also set up a \$2 billion Innovation and Technology Venture Fund under the ITF to co-invest with co-investment partner (CP) at a matching ratio of approximately one (Government) to two (CP) in local I&T start-ups upon invitation of the latter. In addition, the Hong Kong Science and Technology Parks Corporation's Corporate Venture Fund co-invests, on a matching basis, with angel investors or venture capital funds in start-ups which are currently located in the Hong Kong Science Park or have participated in its incubation programmes. The Cyberport has also been proactively providing early financing for its community start-ups through the Cyberport Macro Fund.

The HKSAR Government will continue to widen the fundraising channels for different companies including I&T enterprises. For example, with the successful experience in facilitating listing of pre-revenue biotechnology companies in Hong Kong, the Hong Kong Exchanges and Clearing Limited launched the listing regime for specialist technology companies in March this year to facilitate I&T enterprises' access to international capital. The HKSAR Government has also introduced diversified fund structures, provided a facilitating tax environment and strengthened co-operation with the Mainland,

with a view to attracting investment funds from around the world to set up in Hong Kong and broadening the financing channels for different industries, including I&T enterprises.